

## California Land Conservation Act (CLCA) Property

### **Value newly created homesites on land under CLCA contract pursuant to Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521).**

In accordance with [AH 521](#), the value for the land allocated to the homesite should be based on the estimated market value of a comparable homesite as of the date of the most recent change in ownership. This value should then be indexed up for inflation to the date the homesite was created.

By valuing a homesite at its estimated market value as of the date of creation of the homesite rather than as of the date of the last change in ownership and then adding that value to the overall existing value, the assessor is not only double-assessing the homesite, but is also improperly determining the homesite value, causing incorrect assessments.

### **Deduct all allowable expenses from the income stream to be capitalized when valuing CLCA properties.**

According to [AH 521](#), since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of income attributable to improvements must be subtracted from the expected gross income prior to capitalization. One of these categories of expenses is special district charges. Special district assessments other than ad valorem assessments levied on agricultural land and paid by the landowner are legitimate charges against real property income. Irrigation and drainage district charges are the most common type of special district assessments.

Another category of expenses are irrigation well charges. Irrigation wells are classified as land for appraisal purposes. Wells are wasting assets and suffer from depreciation. A well often requires maintenance to continually produce the volume of water necessary to grow the irrigated crops that maximize income. Since wells are classified as land, and land values under open-space restrictions are established by capitalizing income, [AH 521](#) recommends the following procedure for treating irrigation well charges:

- Deduct a charge for the return *of* the well value from the income attributable to the real property. This charge can be accurately determined by multiplying the replacement cost new of the well by the appropriate sinking fund factor.
- Deduct a charge for well maintenance when such an expense is applicable.
- Do not deduct a charge for return *on* the investment in a well. Instead, allow this income to remain as income attributable to land to be capitalized at the prescribed open-space rate.

By not deducting appropriate expenses for irrigation well charges or for water irrigation district charges, the assessor is overstating the income of the CLCA property to be capitalized, which may cause an overassessment of the property.

**Improve the CLCA program by deducting operating expenses from gross income.**

[AH 521](#) provides that allowed expenses should be deducted from the estimated economic rent. All properties, including grazing lands, will incur some expenses. Such expenses may include repair of fencing, property management, and insurance. Failure to deduct allowable expenses from gross income may lead to overassessments.

**Include all compatible use income available to the CLCA property when determining the value.**

Property encumbered by a CLCA contract is assessed on the basis of its agricultural income-producing ability and any compatible use income. In defining the income to be capitalized, [section 423\(a\)\(3\)](#) provides that revenue shall be the amount of money that the land can be expected to yield to an owner-operator from any use of the land permitted under the terms by which the land is enforceably restricted. [AH 521](#) provides that an appraiser may estimate an economic rent for a property not currently producing income if the property has income-producing capabilities. The income that can be generated and is attributable to the land must be capitalized in the manner specified for restricted properties.

By not including compatible use income in the valuation process, the assessor is undervaluing those open-space properties that have additional income from allowed compatible uses.

**Value all unrestricted nonliving improvements on CLCA property.**

[AH 521](#) states that all property not specifically restricted by an open-space contract must be valued for tax purposes in accordance with [article XIII A](#). If the county's CLCA contract does not allow for nonliving improvements to be included in the enforceable restriction in accordance with [section 423\(e\)](#), nonliving improvements are valued under [article XIII A](#), and are treated as a separate appraisal unit under [section 51\(d\)](#). In accordance with [section 51\(a\)](#), the separate appraisal unit consisting of unrestricted nonliving improvements must be enrolled at the lower of its factored base year value or current market value.

The assessor's practice of not assessing unrestricted nonliving improvements on CLCA property may result in escaped assessments.

**Deduct appropriate charges for a return *on* and *of* nonliving improvements that contribute to the income being capitalized.**

[AH 521](#) provides that the two most acceptable methods to determine the charges for these nonliving improvements are to: (1) determine a market-derived yield rate and apply it to the RCN of the improvement over the improvement's economic life, or (2) determine a market-derived yield rate and apply it to the RCNLD of the improvement's remaining economic life. Either method should yield the same result if applied properly, so both methods are acceptable. [Assessors' Handbook Section 505, Capitalization Formulas and Tables \(AH 505\)](#), provides the periodic repayment factor applicable to the market-derived yield rate.

By incorrectly determining charges for return *on* and *of* nonliving improvements that contribute to the income being capitalized, the assessor is overstating expenses and undervaluing restricted properties.

**Assess all trees and vines located on CLCA property.**

[Section 429](#) provides that in valuing land enforceably restricted, fruit-bearing or nut-bearing trees and vines on the land that are not exempt from taxation shall be valued as land. The value of trees and vines on land subject to open-space restrictions shall be established by capitalizing the net income attributable to them.

The assessor's practice allows restricted living improvements to escape assessment.

**Estimate income attributable to trees and vines subject to open-space restrictions in conformance with Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521).**

[AH 521](#) describes the procedure for estimating the net income attributable to trees and vines subject to open-space restrictions. The net income attributable to the trees and vines is estimated by calculating the net income (prior to recapture of the trees and vines) for both the land and living improvements and deducting the net income attributable to the land. The residual income can then be capitalized into the value of trees and vines.

The assessor's valuation policy for these living improvements may result in inaccurate values.

**Annually compute the restricted values for CLCA properties in accordance with section 423.**

The basic appraisal method applicable to the valuation of open-space land subject to an enforceable restriction is the statutorily-prescribed income approach in [section 423](#). Subdivisions (a), (b), and (c) of [section 423](#) prescribe the method of valuation. [Section 423\(d\)](#) provides that the taxable value on the lien date may not exceed the lowest of: (1) the current restricted value (determined via the prescribed income method for open-space properties), (2) the current fair market value calculated pursuant to [section 110](#), or (3) the factored base year value, as if unrestricted, calculated pursuant to [section 110.1](#).

By not annually calculating the restricted value for the restricted portion of CLCA properties, the assessor cannot make the three-way comparison that is necessary to correctly assess such property pursuant to [section 423](#). This practice may lead to incorrect assessments of CLCA properties.

**Correctly value CLCA properties subject to terminating restrictions in accordance with section 426.**

[Section 426](#) contains specific directives concerning the valuation procedure applicable to land subject to a terminating restriction. Such land shall be valued annually by:

1. Determining the full cash value of the land according to [section 110.1](#) (factored base year value), or, if the land will not be subject to [article XIII A](#) upon the expiration of the contract, according to [section 110](#) or other special restricted assessment provided for in the law;

2. Determining the restricted value of the land by the capitalization of income method specified for open-space land as provided in [section 423](#);
3. Subtracting the restricted value in step 2 from the value determined in step 1;
4. Discounting the difference between the restricted value and the value determined in step 1 for the number of years remaining until the termination of the enforceable restriction at the interest rate announced by the State Board of Equalization by September 1 pursuant to subdivision (b)(1) of [section 423](#); and
5. Adding this discounted value to the restricted value determined in step 2.

The correct discount rate is the interest component announced by the BOE; the discount rate does not include the other components in the open-space capitalization rate. The discounting period is the number of years remaining until the termination of the enforceable restriction.

The assessor's current practice of not using the most recent interest component is contrary to statute and may result in incorrect assessments for CLCA properties in the nonrenewal process.